INSTRUCTIONS (***Read Carefully***):

ON YOUR QUESTION BOOKLET:
Fill in your name, Student ID, Discussion Section Number (e.g. D5) and your signature.

ON YOUR SCANTRON:
Enter the Course Number (EC101 DD or EE) and date on the lines at the top-left. In the boxes below, enter your Student ID, your DISCUSSION SECTION number (D1 - D9, E0 - E9), your NAME and your EXAM VERSION into the Scantron computer sheet. Be sure that you “bubble” all entries (fill in the small circles). I will subtract up to 5 points as punishment for errors in these data!

DURING THE EXAM:
Students who wish to leave the room for any reason must leave the Question Booklet and Scantron sheet with the instructor or teaching fellow. Students in EC101DD MUST turn in both the Question Booklet and the Scantron sheet at the end of the exam and exit from the front of the room. Students in EC101EE should keep their Question Booklet and turn in only their Scantrons. All students must show their BU Student IDs as they leave the exam room.

MULTIPLE-CHOICE QUESTIONS:
Choose the **BEST** answer for each of the multiple-choice questions. (Only ONE answer is allowed, even when more than one of the answers is technically correct.) On the Question Booklet, CIRCLE the letter that you chose, so that you have a record of your answers. Then BUBBLE it on the Scantron for grading.

Never cross out an answer on your Scantron. Use a pencil to bubble your answers, and keep a good eraser with you. If you bubble the wrong answer on the Scantron, erase your mark COMPLETELY, and then bubble the correct answer.

***YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.***

***However, INTERNATIONAL STUDENTS may use electronic translators or dictionaries.***

You have 60 minutes to complete the exam. Good luck!

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**DO NOT OPEN THIS BOOKLET OR TURN IT OVER**
[until told to do so]**
1. A simultaneous increase in both the demand for radios and the supply of radios would imply that
   a. both the value of radios to consumers and the cost of producing radios has decreased.
   b. both the value of radios to consumers and the cost of producing radios has increased.
   c. the value of radios to consumers has decreased and the cost of producing radios has increased.
   d. the value of radios to consumers has increased and the cost of producing radios has decreased.

2. In competitive economies, workers are often paid much more than would be required to make them willing to do their jobs, mainly because
   a. firms cannot receive economic rents under competition.
   b. good workers receive economic rents when firms compete with each other for labor.
   c. firms will not pay economic rents to workers under competition.
   d. most firms are rent-seeking.

3. Which of the following statements is not correct about a competitive market in equilibrium?
   a. The price determines which buyers and which sellers participate in the market.
   b. Consumers who buy in the market have a higher willingness to pay than consumers who don’t buy.
   c. Consumer surplus will be equal to producer surplus.
   d. The producers that sell in the market have lower costs than those that don’t sell.

Scenario CAV. Wei and Yao make cakes and pies in their bakery. The time required (the cost of resources) is shown in the table below.

<table>
<thead>
<tr>
<th>Minutes Needed to Make One</th>
</tr>
</thead>
<tbody>
<tr>
<td>cake</td>
</tr>
<tr>
<td>Wei</td>
</tr>
<tr>
<td>Yao</td>
</tr>
</tbody>
</table>

4. In Scenario CAV, Yao’s opportunity cost of 1 pie is
   a. 1/2 cake.
   b. 8 cakes.
   c. 2/3 cake.
   d. 2 cakes.

5. In Scenario CAV, which of the following is true?
   a. Neither Wei nor Yao should specialize.
   b. Yao should specialize in making cakes.
   c. Wei should specialize in making cakes.
   d. Wei should specialize in making pies.

6. Suppose there are rent controls in the market for apartments. Then,
   a. the efficient number of apartments will be rented.
   b. some consumers will pay lower rents than they would pay without controls.
   c. those willing to pay the most will get the apartments.
   d. more consumers will move to larger apartments than without controls.

7. In markets without rent-seeking, the payment of economic rents increases economic efficiency, because economic rents
   a. create jobs.
   b. are a reward for hard work.
   c. reward people for financial investments.
   d. direct resources to the most productive use.

8. Araceli works 10 hours per week at Whole Foods and earns $7 per hour. Her boss decides to raise her wage to $14 per hour. Then, Araceli says to herself, “Great, now I will work more hours and make lots of money.” This implies that
   a. her demand curve for leisure is not downward sloping.
   b. leisure is an inferior good.
   c. the substitution effect is stronger than the income effect.
   d. the income effect is stronger than the substitution effect.

9. A price ceiling above the equilibrium price results in
   a. a market with no sales.
   b. a long-run price above the equilibrium price.
   c. an efficient market.
   d. a larger economic pie.

10. Assume the US government passes a law making it much easier for US firms to export beef. Which is most likely to occur?
    a. American consumers will face lower prices for food containing beef.
    b. The surplus of US beef producers will fall.
    c. US beef producers will hire more workers.
    d. A large deadweight loss will be created.

11. If WTP = 80, how much consumer surplus does a consumer obtain when price is 110?
    a. 0
    b. 30
    c. −30
    d. 190
12. **See Figure TXA.** The tax causes consumer surplus to decrease by the area
   a. B+C.
   b. A.
   c. A+B+C+D+F.
   d. A+B+C.

13. **See Figure TXA.** The government collects tax revenue that is the area
   a. C+F.
   b. L.
   c. B+D.
   d. F+G+L.

14. **See Figure TXA.** The $10 tax will
   a. cause a $10 increase in consumer prices.
   b. create an excess demand of 20 units.
   c. result in nonprice rationing.
   d. allocate goods to the consumers with the highest willingness to pay.

15. **See Figure TXA.** Consumers effectively pay a larger portion of the tax than producers do, because in the relevant price range
   a. the demand curve is elastic.
   b. supply is more elastic than demand.
   c. demand is more elastic than supply.
   d. the supply curve is inelastic.

16. If, at the current price, there is a shortage of a good,
   a. quantity demanded equals quantity supplied.
   b. sellers are producing more than buyers want to buy.
   c. the price is below the equilibrium price.
   d. the market must be in equilibrium.

17. Suppose your roommate is very messy. Being messy is worth $50 to her because it makes her life easier, but the mess makes you feel $100 worse off. One efficient solution would be for you to
   a. pay your roommate $120 to stop being messy.
   b. offer to clean up her mess if she pays you $60.
   c. pay $120 to a cleaning company to clean up her mess.
   d. pay your roommate $60 to stop being messy.

18. **See Figure QMC.** Each firm will remain open in the short run
   a. at any price greater than zero.
   b. only if the AVC is at least $6.
   c. only if the MC is less than $6.
   d. only if the price is at least $6.

19. **See Figure QMC.** Each firm has a fixed cost of approximately
   a. $9.
   b. $6.
   c. 0.
   d. MORE information is needed.

20. **See Figure QMC.** In long-run equilibrium (after entry and exit has ended), each firm will
   a. set AVC equal to ATC.
   b. produce 3 units.
   c. assume that its fixed costs are sunk costs
   d. continue to expand.

21. If all fixed costs are sunk, then
   a. the firm is probably operating in the short run.
   b. few units will be produced if fixed costs are high.
   c. the firm will go out of business.
   d. marginal cost is constant.
22. Which of the following is the best example of rent-seeking?
   a. A student asks a professor to raise his grade in economics, because he is in danger of losing his financial-aid package.
   b. The owner of a bar offers a large selection of draft beers in order to attract more customers.
   c. An engineer volunteers for difficult jobs in order to convince his boss to raise his salary.
   d. A secretary takes finance courses in order to qualify for a license as a financial adviser.

23. A tax on gasoline often reduces road congestion, because
   a. the tax raises the private cost of driving.
   b. gasoline is a normal good, and driving is an inferior good.
   c. gasoline is an inferior good, and driving is a normal good.
   d. the tax raises the social cost of driving.

24. Which of the following is a variable cost of producing physical copies of the Case/Fair/Oster textbook?
   a. the cost of graphic design
   b. the cost of typesetting
   c. the cost of writing the book
   d. the cost of paper

25. Excess demand and nonprice rationing tend to reduce efficiency, because
   a. buyers may have to wait a long time in lines.
   b. the consumers with the highest WTP may not obtain the goods.
   c. the quality of goods may decrease.
   d. ALL of the above

26. Which of the following firms best represents a price taker?
   a. a women’s clothing shop
   b. The Boston Red Sox
   c. an automobile manufacturing company
   d. a rice farmer

27. Mirko prefers apples, but he has two oranges. Debbie prefers oranges, but she has two apples. Which of the following is a Pareto improvement?
   a. Mirko gives Debbie an orange.
   b. Mirko and Debbie exchange one orange and one apple.
   c. Debbie gives Mirko an apple.
   d. NONE of the above

28. **See Table LPS.** If the market price is $200, the producer surplus in the market is
   a. $150.
   b. $450.
   c. $140.
   d. $740.

29. **See Table LPS.** If the market price is $220, the combined total cost of all participating sellers is
   a. $540.
   b. $250.
   c. $740.
   d. $450.

30. Adam Smith wrote: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.” Smith means that
   a. markets are inefficient without ethical business executives.
   b. British consumers should limit their diets to meat, beer and bread.
   c. markets work well because firm owners maximize profits.
   d. markets work poorly without government regulation.

31. Which of the following is a good example of economic rents?
   a. People who work hard earn more than those who don’t.
   b. College graduates earn more than high-school graduates.
   c. Smart people earn more than stupid people.
   d. NONE of the above

32. Jim's total utility after eating 9 cookies was greater than his total utility after eating one more cookie. Therefore, Jim's marginal utility for the 10th cookie was
   a. zero.
   b. negative.
   c. positive, but less than one.
   d. positive, but less than his marginal utility from the 9th cookie.
33. Negative externalities from a good create inefficiency, because
   a. the price of the good will be too high.
   b. demand for the good is extremely elastic.
   c. production of the good involves private costs
      that are not opportunity costs.
   d. too much of the good is produced and consumed.

   **Figure EXN.** On the graph, \( Q \) represents the quantity
   of plastics and \( P \) represents the price of plastics.

34. **See Figure EXN.** If 325 units of plastics are produced
   and consumed, then
   a. the market is at the free-market equilibrium.
   b. the market is at the social optimum.
   c. the government must have imposed a tax on
      plastics.
   d. the government must have offered a subsidy for
      plastics.

35. **See Figure EXN.** In order to reach the social
   optimum, the government could
   a. impose a tax of $6 per unit.
   b. impose a tax of $8 per unit.
   c. offer a subsidy of $14 per unit.
   d. impose a tax of $2 per unit.

36. **See Figure EXN.** If the government imposed a tax
   that moves the market to the social optimum, then tax
   revenue for the government would amount to
   a. $2,000.
   b. $2,500.
   c. $1,250.
   d. $1,600.

37. French consumers like Bordeaux wines, but they
   consider Burgundy wines to be an excellent substitute
   for Bordeaux. If the government imposed a tax on
   Bordeaux, then
   a. the producers of Bordeaux would pay most of
      the tax.
   b. the consumers of Bordeaux would pay most of
      the tax.
   c. the producers and consumers of Bordeaux
      would pay about the same share of the tax.
   d. all French citizens would pay a share of the tax.

38. Competitive firms normally don’t set prices above the
   market price, because
   a. they would lose their customers.
   b. their taxes would increase.
   c. it would be illegal to do so.
   d. it would not be ethical to do so.

39. **See Figure PCS.** Which area represents consumer
   surplus at a price of \( P_1 \)?
   a. \( ABD \)
   b. \( ACG \)
   c. \( DFG \)
   d. \( BCDF \)

40. **See Figure PCS.** When the price falls from \( P_1 \) to \( P_2 \),
   which area represents the increase in consumer
   surplus of the people who were buying at price \( P_1 \)?
   a. \( DFG \)
   b. \( ABD \)
   c. \( ACG \)
   d. \( BCDF \)